THE BERKSHIRE GAS COMPANY

Direct Testimony of Karen L. Zink

D.T.E. 02-19

Q. Please state your name, employer and business address.

A. My name is Karen Zink. I am employed by The Berkshire Gas Company ("Berkshire" or the "Company") and my business address is 115 Cheshire Rd., Pittsfield, MA 01201.

Q. What is your position with Berkshire?

A. I am Vice President of Marketing and Resource Planning.

Q. Could you please briefly describe your educational and professional background.

A. Yes. I graduated from Central Connecticut State University in 1979 with a Bachelor of Science degree in Finance and from Western New England College in 1997 with a Masters of Business Administration. I have held several positions with the Company including Supervisor of Financial Services, Supervisor of Planning, Manager of Rates and Planning and Director of Rates, Regulation and Resource Planning. I was promoted to my current position in 1998.

Q. Please summarize your responsibilities as Vice President of Marketing and Resource Planning.

A. As Vice President of Marketing and Resource Planning, I have direct responsibility for marketing, rates, gas supply, gas dispatch, transportation services, demand-side management programs, and long-range strategic planning and forecasting. Additionally, in October 2000, I assumed responsibility for the chief financial officer functions of the Company. In that capacity, I am responsible for all aspects of the Company's financial operations. This includes external financings, risk management including insurance coverage and group benefits, and overall supervision of the General Accounting Department.

Q. Have you testified as a witness in any other proceedings involving the Company before this Department?

A. Yes. I testified as a witness in the Company's last three base rate cases regarding rate design, revenue and weather normalization, and a price-cap mechanism (D.P.U. 90-121; D.P.U. 92-210; and, D.T.E. 01-56). Further, I actively participated in the Massachusetts Gas Collaborative effort in developing model terms and conditions pursuant to DTE 98-32 and DTE 00-13, and sponsored the Company's unbundled rate initiative in D.T.E. 98-65. Also, I have testified as a witness on many gas supply related issues including the Company's requests for approval of a LNG supply contract (D.T.E. 98-110); for approval of the Company's Forecast and Supply Plan (D.T.E. 98-99); for approval of the Company's seasonal cost of gas adjustment revision (D.T.E. 01-10); and for approval of the Company's alliance arrangement between BP Energy Company ("BP Energy") and the Energy East Corporation gas distribution companies, including Berkshire (D.T.E. 01-41). I also expect to provide testimony in the ongoing review of the Company's most recent Forecast and Supply Plan, D.T.E. 02-17.

Q. Please describe the various industry groups of which you are a member.

A. I am a member of the New England Gas Association and currently serve on the general Board of Directors as well as the Chairperson of the Board of Directors of the Marketing Division. I also served for several years as Chairperson of the Planning and Rates Committee. Finally, I am a member of the Guild of Gas Managers.

Q. What is the purpose of your testimony?

A: I am pleased to describe to the Department the benefits associated with the Company's most recent Gas Portfolio Optimization Agreement with BP Energy and the related Gas Purchase and Sale Agreement (collectively, the "2002 Optimization Agreements"), which replace and enhance the relationship with BP Energy and reflect some modifications to similar agreements approved in D.T.E. 01-41 ("2001 Optimization Agreements"). This testimony provides background concerning the results of operations under the 2001 Optimization Agreements, an update on BP Energy, an overview of the current market, the Company's solicitation processes that resulted in the execution of the 2002 Optimization Agreements, and describes key elements of the 2002 Optimization Agreements.

Q. Please provide an overview of the existing BP Energy relationship.

A. On March 25, 2002, Connecticut Natural Gas Corporation ("CNG"), The Southern Connecticut Gas Company ("SCG"), New York State Electric & Gas Corporation ("NYSEG"), and Berkshire (collectively the "LDCs" who are the existing regulated gas distribution subsidiaries of Energy East Corporation ("Energy East")), each entered into agreements with BP Energy that are essentially identical to the 2001 Optimization Agreements. The Company filed the 2001 Optimization Agreements on April 9, 2001 with the Department. On June 29, 2001 the Department approved the 2001 Optimization Agreements.

The 2002 Optimization Agreements maintain the core principles of the 2001 Optimization Agreements. Under the 2002 Optimization Agreements the LDCs continue to retain full control of their gas supply, pipeline transportation, gas storage, produced gas and related assets. The 2002 Optimization Agreements are designed to enhance the use of the Company's natural gas portfolio relating to transportation, storage, and the purchase and sale of natural gas, while simultaneously continuing to provide customers with least-cost, reliable service. This is accomplished by working together with BP Energy, which brings complementary market and wellhead knowledge and expertise. The team of individuals that represent the Energy East LDCs and BP Energy will work with the shared goal of replicating the least-cost routing and reliability present under a least-cost dispatch of supplies, maintaining existing levels of reliability while adding incremental value by optimizing the use of the LDCs portfolios consistent with the Company's portfolio objectives. This team or alliance approach allows the LDCs to maintain the appropriate level of control of their assets and provides the LDCs with a unique approach to maintain and develop internal capabilities while leveraging the expertise of BP Energy, a recognized leader in the industry.

Q. Please provide an update on BP Energy.

A. BP Energy is the largest producer and reserves holder of natural gas in North America. BP Energy's supply resources are located in key areas relative to the Company's supply, transportation and storage resources. BP Energy also maintains substantial technological and risk management expertise that will be made available to the Company. BP Energy is now familiar with the Company's resources and the Company's staff is familiar with the transactions and opportunities that may be pursued pursuant to the alliance structure. The Company believes that these factors enhance the prospect for continuing success pursuant to the restructured alliance.

Q. Please describe experience and successes with BP Energy under the current relationship.

A. The Company has been pleased with the performance of the BP alliance , especially during this time of changing market conditions. In a marketplace with limited opportunity for gas optimization savings and the set-up year of the relationship with BP Energy, substantial results were nevertheless achieved. The alliance has also provided an excellent opportunity for the Energy East companies to implement joint gas supply activities. Further, the alliance has provided a cross-training vehicle for our own personnel broadening overall internal knowledge and understanding of the complex natural gas market. This access to information has provided the Company with key insights into issues related to natural gas commodity supply and pricing.

[SUBJECT TO CONFIDENTIALITY]

Q. Please describe what you mean by "changing market conditions" in your last answer.

A. The year 2001 was certainly a tumultuous year for natural gas markets. From a commodity standpoint the year featured wide variations in prices. Early in the year, 2001 wellhead prices were at historical highs, but by the late fall wellhead prices dropped to lower levels. From a broader perspective, the demise of the Enron Corporation ("Enron") has had massive reverberations throughout the business community and particularly the energy industry. Enron was a primary market-maker for many types of commodity and financial transactions related to natural gas and their withdrawal substantially reduced market liquidity for many transactions. Neither BP Energy nor Energy East were negatively impacted by Enron's situation, beyond Enron's overall impact on the energy industry.

Q. How do "changing market conditions" affect optimization?

A. Optimization values are directly affected by market conditions. When natural gas prices, transportation values, price volatility and price spreads are low (i.e., caused by mild weather, high levels of natural gas in storage, low demand, high production, etc.) or if natural gas is priced unfavorably compared to alternate fuels, the level of savings available from optimization is reduced. However, such market conditions usually result in a period of low commodity prices which directly benefits the Company's customers. These conditions were present during much of the previous agreement term. Thus, these changing market conditions resulted in fewer opportunities for optimization savings.

These same conditions, however, resulted in lower gas prices and direct savings for Berkshire's customers as described previously in my testimony.

Q. Please describe the events that led to the decision to execute the 2002 Optimization Agreements.

A. The 2001 Optimization Agreements had a contractually mandated exclusive negotiation period. Consistent with the directives of the Department's Order in D.T.E. 01-41, Berkshire also was subject to a regulatory requirement to issue a request for proposals for portfolio services in connection with the analysis of the renewal or modification of the 2001 Optimization Agreements. Thus, on November 14, 2001, Berkshire issued a request for proposals ("Berkshire RFP") to evaluate Company-specific bids in connection with its ongoing analysis of the merits of renewing or modifying the Company's 2001 Optimization Agreements. While awaiting responses to the Berkshire RFP, the Company terminated negotiations with BP Energy without reaching agreement and elected not to renew the 2001 Optimization Agreements. CNG, SCG and NYSEG made similar elections with respect to their 2001 agreements. [SUBJECT TO CONFIDENTIALITY].

Consequently, the Energy East companies decided to terminate negotiations and issue an RFP. This would enable the Companies to determine how other companies viewed the market and would structure their bids. Based on these responses, the Energy East companies could see whether such other companies or BP Energy provided them with the best opportunity to maximize optimization savings for their customers.

Following the termination and mindful of the Department's findings with respect to the merits of regular market solicitations (D.T.E. 01-41, p. 13), the Company concluded that responses to the Berkshire RFP were disappointing and opted, instead, to participate in another coordinated competitive bidding and negotiation process with the other Energy East companies.

On December 21, 2001 the Energy East companies issued a Request for Proposals ("Joint RFP") [SUBJECT TO CONFIDENTIALITY]. The responses were received on January 15, 2002. The Joint RFP responses clearly reflected the fact that market conditions were different since the Joint RFP issued on January 29, 2001 in connection with the 2001 Optimization Agreements. During that span of time wellhead prices, transportation values and market spreads had diminished. The absence of Enron's liquidity in commodity and financial transactions was evident. Also, the absence of Enron and changing market and financial conditions directly and indirectly reduced the number of energy companies that were qualified to work with the LDCs.

After the proposals were evaluated, it was clear that BP Energy's proposal surpassed alternative proposals. This fact, coupled with BP Energy's experience working with the LDCs and the systems that had been put into place, made BP Energy the final candidate for negotiation. After intense negotiations the LDCs selected BP Energy to continue to work with them to add incremental value for their customers, and entered into the 2002 Optimization Agreements.

Q. Please summarize why the BP Energy alliance is the best choice going forward.

A. BP Energy represents an excellent partner with financial strength, history and sound business values.

BP Energy is the best choice because the alliance continues to:

a) provide the best opportunity to achieve further reductions in the cost of gas for the Company, an opportunity that is substantially superior to other market offerings as determined by two comprehensive, competitive solicitations;

b) allow the Company the ability to capitalize on the benefits from a larger gas portfolio made available through the Energy East merger;

c) reinforce reliability of service;

d) complement and supplement existing in-house expertise;

e) increase the existing skill-set and in-house capabilities;

f) assist in risk management and price stability;

g) provide exposure to broader markets; and

h) allow the Company to retain control over its individual assets and resource portfolio.

Under the 2002 Optimization Agreements, the Company will continue to control, own and operate its natural gas portfolio while accessing and leveraging the unique expertise of the alliance members. Access to BP Energy's substantial and diverse natural gas production and resources enhances reliability. Access to BP Energy's broad expertise and market knowledge also assists in decisions related to reducing the commodity cost of gas. Further, the combined capabilities of the alliance are expected to continue to produce results from asset optimization activities that exceed those available absent the alliance. [SUBJECT TO CONFIDENTIALITY].

Q. Please summarize the 2002 Optimization Agreements.

A. The basic principles of the 2002 Optimization Agreements remain unchanged from the 2001 Optimization Agreements. Under the 2002 Optimization Agreements the Company will continue to:

1. [SUBJECT TO CONFIDENTIALITY];
2. retain full control of its gas supply, transportation and storage assets;
3. retain full control of all downstream resources such as liquefied natural gas;
4. have access to various price stability tools; and
5. purchase commodity on a least-cost basis, which will allow for continued access to pricing under existing supply contracts that contain lower prices.

The major differences in the 2002 Optimization Agreements from the 2001 Optimization Agreements are:

1. the term will be for a two-year period commencing on April 1, 2002 ;
2. [SUBJECT TO CONFIDENTIALITY];

3. [SUBJECT TO CONFIDENTIALITY];

4. [SUBJECT TO CONFIDENTIALITY]; and

5. the ability of the Company to freely make portfolio changes consistent with Department directives is clarified and confirmed.

Q. Please describe the basis for a two-year term.

A. BP Energy's response to the Joint RFP reflected a two-year term. After concluding the Joint RFP process, and with our experience with BP Energy over the last year, the Energy East companies supported a two-year term. Given that under the 2002 Optimization Agreements Berkshire will still control its gas portfolio assets and the 2002 Optimization Agreements reflect the most attractive market opportunity that will result in least cost gas to the Company's customers, Berkshire decided that the more favorable two-year term was appropriate. In addition, a two-year term provides continuity and the ability to have optimization deals which extend beyond or straddle a one-year term, and avoids the start-up issues associated with a new alliance partner.

Q. [SUBJECT TO CONFIDENTIALITY]

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A. [SUBJECT TO CONFIDENTIALITY]

Q. Why should the Department approve the 2002 Optimization Agreements?

A. The existing BP Energy alliance has provided savings and other benefits. A continuing partnership with BP Energy, the largest producer of gas in North America, a financially strong company with solid and ethical business values is desirable. The 2002 Optimization Agreements maintain the principles, control and flexibility of the original agreements that were approved in D.T.E. 01-41, and allow the Company to reap the benefits of the expertise of a nationally recognized energy expert, while minimizing the risks. Moreover, the Company aggressively tested the market for alternative opportunities and concluded that the 2002 Optimization Agreements were the best options considering both price and non-price factors. In sum, the solicitation processes were robust, transparent and helped to identify the most attractive opportunity available to the Company. Finally, the 2002 Optimization Agreements will enable the Company to continue to achieve its portfolio objective of securing a least cost, reliable gas supply for the benefit of customers.

Q. Does this conclude your testimony?

A. Yes.